ASDWA
Association of State Drinking Water Administrators

April 18, 2017

Grace Appelbe
Legislative Clerk
Committee on Energy and Commerce
2125 Rayburn House Office Building
Washington, DC 20515

Dear Ms. Appelbe:

As requested, please find below my responses, as President of the Association of State Drinking Water Administrators (ASDWA), to questions posed by Chairman Shimkus in your letter of April 18, 2017. The questions relate to my testimony before the Subcommittee on Environment during the March 16th hearing titled "Reinvestment and Rehabilitation of Our Nation's Safe Drinking Water Delivery Systems." Our thanks to Chairman Shimkus and the Subcommittee for the opportunity to testify and provide additional information

From The Honorable John Shimkus

1. **Currently, the Safe Drinking Water Act's Revolving Loan Fund requires the States to match Federal capitalization grants with 20 percent of their own funding.**
    a. **At what amount of Federal capitalization spending, would the state match requirement become a burden that the States could not meet?**

States range in their ability to meet the current state match requirement. For some states, meeting any match requirement has been a burden, while for others, this funding need has become a typical budget request over the 20 years of the Safe Drinking Water Act Revolving Loan Fund. State funding has remained flat or declined in recent years, and state's budget prospects are no brighter in the immediate future. Any increase in match percentages would be problematic for most state drinking water programs.

For Minnesota, our state match request is always part of our state infrastructure bonding request, and is small in comparison to the total bonding request. We have been able to make a compelling case that the state gets a lot of leverage from the State Revolving Fund (SRF) loan program and it has typically been approved without much debate. Of course, the Minnesota legislature and the governor both must approve the bonding proposal. If that is not approved, then the match (and the use of Federal Capitalization Grant itself) are not available for use in the Minnesota SRF.

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2. **Aside from the issue of asset management, what are some of the lessons learned about what has worked well in incentivizing systems to make solid investments and upgrades and what have you seen work as disincentives?**
   States have found that targeted training and support for smaller water systems on issues beyond compliance such as basic business planning are very effective. Training and education of basic business practices such as creating a business plan, how to set appropriate rates, learning how to communicate both challenges and successes to decision makers, and understanding the value the water system brings to the community from both a public health and economic sustainability can make the difference between a failing system and one that takes the next step forward to better meet Federal and state requirements and successfully serve the community.

   Even with robust business planning, affordability of water and sewer rates can be a significant problem for many small systems, primarily due to local economic conditions. Partial grant assistance that is combined with SRF loans can be a powerful incentive to get a community to make needed investments in its infrastructure. This funding needs to be available in a steady and consistent manner and part of a process that technical, financial, and managerial support to give the community confidence to make the local investments and decisions to get a project ready and ultimately, get construction completed. On the other hand, inconsistent funding that comes in fits and starts works as a disincentive that can cause a community to delay project planning and wait to see if a "better deal" will be available in the future.

3. **What kind of contributions do States make in encouraging the rehabilitation and redevelopment of drinking water delivery systems?**

   On the funding side, Minnesota, as well as many other states, works to establish a clear and consistent funding process and an objective and transparent Project Priority/Intended Use Plan process to identify fundable projects. The Governor of Minnesota has proposed a state grant program to address drinking water affordability needs. Many states are using a variety of funding sources for drinking water infrastructure improvements.

   Through the sanitary survey process conducted by district engineers, deficiencies in public water systems are identified and a plan developed to remedy these deficiencies. Some of the "fixes" for these deficiencies are more procedural in nature and don't require any capital investments. If these deficiencies include infrastructure improvements, the district engineers are familiar with the funding programs and will assist the water system through the funding process

4. **The EPA distributes funds to each Drinking Water State Revolving Fund following a formula based on each state's identified drinking water infrastructure needs.**
   a. **Is the funding formula for how the EPA allocates money to the states sufficiently transparent?**

   Yes, the funding formula is sufficiently transparent, and it seems that the only fair way of allocating funds is based on the needs of the states. There is some concern that guidelines for completing EPA's Drinking Water Needs Survey may result in an underestimate of the national drinking water needs. One example is the limitation of

water main replacement to 10% over 20 years, which amounts to a 200-year replacement schedule, well beyond the design life of any water main.

b. Do you think the allocation formula is working as Congress intended it to be?

Yes, the allocation formula is generally working as intended. This formula should also be used in situations like Flint, where all states have a similar need to work on minimizing lead exposure from drinking water, rather than direct appropriations to a certain city or state. Additionally, some consideration for the allocation formula should be given to the number of systems in a state, somewhat like the calculation for the funding for the Public Water Supply Supervision (PWSS) program. While any potential change in the allocation formula would need careful study, the number of systems in the state may need to be included as part of the calculation along with results of the needs survey.

c. Generally speaking, how long does it take for a State to allocate the annual State Revolving Loan capitalization funding provided to it by the Federal Government?

States vary for the timeframe to allocate and disburse the capitalization funding, but all states strive to keep the timeframe to a minimum. In Minnesota, the annual Federal funds are allocated (obligated) to loans within 6-9 months, and all Federal funds are drawn and disbursed in less than two years. Many other states have similar timeframes. If necessary, ASDWA could survey its membership and provide more detailed information on the states' timeframes to allocate and disburse the capitalization funding.

5. The Drinking Water State Revolving Funds are designed, as the name suggests, to revolve, meaning that the money received from repayment of outstanding loans is to be used to make additional loans.

a. From your experience, are Drinking Water State Revolving Funds working as intended? Meaning, is the money being paid back into the loan allowing for additional loans to be made?

Yes, the DWSRF loans are working as intended – the loans finance high priority drinking water projects at below-market interest rates. In Minnesota, the cities repay the loans on established repayment schedules and have a record of zero defaults. The revolving nature of the program makes the federal appropriations a long-term investment that provides a permanent source of low-cost capital for drinking water infrastructure projects. To date in Minnesota, each federal dollar has generated over $2.25 in project construction, a leveraging ratio that continues to grow as the funds continue to revolve.

Loans are currently beginning to be fully repaid as the loans were set up for a 20-year repayment schedule and 2017 is the 20th anniversary of the Drinking Water State Revolving Fund (DWSRF). For example, Pennvest closed the first DWSRF loan on March 22, 1997 with the Williamsburg Municipal Authority of Blair County for system-wide improvements that included a booster pumping station, a 210,000 gallon storage tank, over eight miles of water mains, and replacement of every water meter in the system. Construction began later in 1997 and was completed in 1998 and the loan was completely repaid on March 1, 2017.

6. **An important component of the Drinking Water State Revolving Fund is the set-aside program, which allows states to use a portion of the State Revolving Funds for programs and activities to ensure safe drinking water.**

    a. **Can you give a few examples of how States are using set-asides?**

The administrative set-aside provides funding for state staff, which not only allows for program administration but allows staff to work with communities and assist them through the funding and construction process.

The wellhead protection set-aside has helped many communities develop wellhead protection plans to ensure the safe and reliability of their water source.

The capacity development set-aside has allowed all states to establish a capacity development program that works to help systems attain, and then maintain, their technical, financial, and managerial capabilities. These safety nets have helped many systems avoid failure and continue to meet their water quality and quantity responsibilities.

All states have established operator certification programs that ensure that operators work from a common baseline and have the necessary education and experience commensurate with the complexity of their public water system.

States have used the technical assistance set-asides to provide additional support, frequently to small or rural areas, to help them with water quality and quantity concerns. States often use this set-aside to contract with assistance providers such as state Rural Water Associations or state Rural Community Assistance Partnership organizations for specific training and technical assistance needs. For example, Minnesota Rural Water Association (MRWA) created an easy-to-use asset management spreadsheet intended for communities with population under 1,000 people.

    b. **Do you think the current set-aside provisions and requirements are successful and working as Congress intended?**

Yes, the set-aside provisions are very successful and are needed by the states to meet the ever-growing challenges associated with providing safe drinking water using aging infrastructure.

7. **You testified that you support a mandatory requirement being added to the Safe Drinking Water Act that asset management be done by entities obtaining Drinking Water State Revolving Fund loans. Is this view the formal position of ASDWA? Does ASDWA support making such a move mandatory as opposed to otherwise encouraging it?**

Effective Asset Management (AM) is critical for long-term sustainability of a water system, and state drinking water programs support and encourage its use. However, making it a mandatory requirement for these loan funds may make it more difficult for the systems to apply for SRF funds, ironically penalizing those systems that need the most assistance. Every additional requirement for these loan funds added to the existing requirements such as American Iron and Steel, Davis-Bacon wage rates, etc., provides a disincentive to use this loan program. Between the additional costs added to

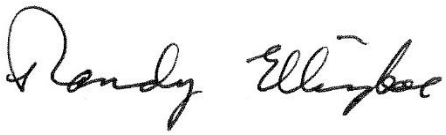
the project and the "hassle factor" from these requirements, water systems are less inclined to be proactive and instead, may wait until an emergency occurs or violations occur to construct the necessary improvements.

My response to the question during the hearing were meant to show my strong support for public water systems developing AM plans to ensure that they have the financial and managerial resources needed to manage a public water system in perpetuity. The vast majority of cities and water systems recognize the value inherent in AM but the pressures of the day-to-day operations can make it very difficult to implement a robust AM program, and a mandatory requirement could make it more difficult for communities to implement sorely needed infrastructure improvements. If AM plans were mandated, it's possible that they could be a one-time AM plan that would be stuck on a shelf to complete the requirements of the mandate.

The critical issue is getting buy-in from the water system to have an AM plan that is actually implemented and maintained in the future. A better approach might be to provide technical assistance to support, encourage and assist communities in developing and maintaining AM programs. Minnesota has contracted with the Minnesota Rural Water Association (MRWA) to develop an AM template and then work one-on-one with pilot cities to fill out the template and implement an AM program. Minnesota Rural Water Association (MRWA) used DWSRF funds through the 2% technical assistance set-aside, showing the importance of these set-asides for drinking water programs. MRWA also has received a grant directly from EPA for small wastewater system training and assistance. MWRA used both funding sources to do the AM pilots with several cities over the past two years and to develop the Excel-based asset AM template that is downloadable for any water system to use.

Thank you again for inviting us to provide additional information on the issues outlined above. If you have additional questions, please feel free to contact me at randy.ellingboe@state.mn.us, or you can contact Alan Roberson, ASDWA Executive Director at aroberson@asdwa.org or (703) 812-9507.

Sincerely,



Randy Ellingboe
President, Assoc. of State Drinking Water Administrators

Cc: The Honorable Paul Tonko, Ranking Member, Subcommittee on Environment